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SUBJECT: PROSPECTS FOR POVERTY REDUCTION THROUGH NON-FARM EMPLOYMENT  
IN SOUTHERN PUNJAB

1. (SBU) Summary: Non-farm employment is vital to help alleviate poverty in southern Punjab, according to local policy makers and academic experts. Population growth has vastly outpaced increases in both agricultural productivity and non-farm jobs, which resulted in higher poverty rates in southern Punjab even when the economy as a whole had improved. Industrial employment available in Pakistan has largely concentrated on low wage, low value-added, and highly fragmented sectors, which leaves most manufacturing centers both poor and vulnerable. Past government emphasis on protecting these industries and their jobs only served to institutionalize the deprivation. Pakistan needs an economic growth strategy that creates formal sector non-farm jobs in order to stabilize southern Punjab, but the limited education and skills of the existing workforce severely constrains options for restructuring the economy. End Summary.

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THE LINK BETWEEN NON-FARM EMPLOYMENT AND RURAL POVERTY

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2. (U) Surplus labor in the agriculture sector was the root of rural poverty in the country, said Harvard economist Ricardo Hausmann in a speech to experts gathered at a June 29-30 conference at the Lahore University of Management Sciences (LUMS). Previous academic research arrived at a similar conclusion. In spite of years of high economic growth and substantial international aid flows in the 1990s, rural poverty in Pakistan increased, particularly in the cotton-wheat belt of southern Punjab and northern Sindh. A 2004 World Bank report concluded that "the most likely factor increasing poverty in the 1990s has been the decline in real rural wages" resulting from the "failure of the non-farm sector to absorb surplus labor." Other research similarly found that high population growth combined with a dearth of non-farm employment opportunities had drowned the region in surplus workers, and as a result wages collapsed.

3. (U) Much of that excess manpower was applied to farming, which helped increase total agricultural output; however, farming practices only changed in labor intensity not methods. A 2005 ADB report observed, "the highest incidence of poverty is in zones that rely most on crop incomes... [and] where the possibility of diversifying incomes in order to manage risk is limited."

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POLICY FAILURES YIELD "ECONOMIC GROWTH WITHOUT DEVELOPMENT"  
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14. (U) Professor Naved Hamid of the Lahore School of Economics said that for decades "Pakistan had economic growth without development." Total economic output may have increased, largely fueled by deficit spending, expansion of the garment and textile sector, and bringing more land under intense cultivation. However, government spending was often directed to the military, or price supports and subsidies, not infrastructure, health, or education. The garment industry expanded, but still focused on low-tech, low value-added merchandise. Total farm output increased, but cropping patterns, irrigation techniques, and post harvest handling did not materially improve.

15. (U) Echoing the sentiments of many other post contacts, two Punjab senior civil servants acknowledged at the conference that political interests secured protection for marginally competitive industries, thwarting attempts at substantive changes in industrial development policy. In a recent study for the ADB, Hausmann concluded that Pakistan consolidated its export economy around the low-value added garment sector "space," protected that sector with subsidies and trade controls, and failed to make any substantial jumps into new, more sophisticated product spaces. Pakistan has "the lowest level of export sophistication" of comparable countries, and "its relative position has worsened over the past 40 years," he wrote. Long existing structural weaknesses in the country's economy precipitated the current economic crisis in Pakistan, and government policy contributed to the problem.

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FOREIGN AID'S UNINTENDED CONSEQUENCES  
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16. (U) Several speakers at the conference believed that foreign assistance to the government at previous moments of acute crisis enabled Pakistan to ignore the structural weaknesses of its own making. As LUMS Professor Ijaz Nabi put it, "Aid has created a kind of Dutch Disease" in Pakistan, because it focused on financial support for the government rather than building infrastructure. It fuelled unsustainable spending, but not necessarily on a foundation for future economic growth.

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PK "NEEDS JOBS FOR THE PEOPLE IT HAS, NOT THE PEOPLE IT WISHES IT HAD"  
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17. (U) The economists concluded that short-term policy options are limited because of the interaction between three workforce characteristics: a) the lack of basic education, b) the narrow transferability of skills from the existing industrial base in the garment and textile sector, and c) the atomized nature of employment in Pakistan's disorganized and largely informal economy. Finance Minister Shaukat Tarin argued that hyper-fragmentation in industry constrained skill development, discouraged foreign direct investment, and hampered efforts to improve tax collection. The preponderance of small family-owned businesses and informal labor created an industrial climate that was neither transparent nor competitive, he said. Consequently, Pakistan has become "less skilled" overall according to Hausmann, a phenomenon that is "almost unique in recent history." Hausmann expressed skepticism about official visions for growth of sophisticated economic sectors, and quipped that the country "needs jobs for the people it has, not the people it wishes it had."

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COMMENT: BUT HOW DO YOU CREATE GOOD JOBS IN RURAL DISTRICTS?  
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18. (SBU) Comment: Academics and policy makers have singled out the relative decline of non-farm employment in agricultural districts as a key reason rural Pakistan remains poor. Growth of industrial employment in the formal sector will diversify the economy in the countryside and help stabilize the most vulnerable districts. The challenge lays in how to attract the right kind of investment, given the realities of the rural workforce and infrastructure.

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